RESPONSE

to the

1989 Report of the Auditor General

Province of British Columbia
Ministry of Finance and Corporate Relations

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RESPONSE TO THE 1989 REPORT

OF THE AUDITOR GENERAL

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STATEMENT BY HONOURABLE MEL COUVELIER

ON THE 1989 REPORT OF THE AUDITOR GENERAL

I take pleasure in presenting the government's response to the 1989 Report of the Auditor General to the Legislative Assembly. This publication describes action taken or planned to address the recommendations in the report.

The Auditor General's 1989 Report incorporated responses from ministries receiving internal control reviews and value-for-money audits, so my comments are limited to areas not already responded to in the Report.

Consistent with prior years' responses, excerpts from the Auditor General's Report included in this response are cross-referenced to the 1989 Report and Reports of previous years where possible.

Mel Couvelier
Minister of Finance and Corporate Relations

A. THE PUBLIC ACCOUNTS

A.1 COMMENTS ON THE GOVERNMENT'S FINANCIAL STATEMENTS

A.1.1 THE GOVERNMENT'S CHOICE OF FINANCIAL STATEMENTS

We are concerned that financial statements portraying less than the whole of the Consolidated Revenue Fund are being presented and referred to...as the government's main financial statements.

We recommend that the government reconsider its method of presenting its financial position and operating results. (Page 18, Auditor General's 1989 Report)

The government has emphasized to the Auditor General that we do not have main financial statements, but statements which report various levels of activity of the government.

The following three levels of activity were reported on at March 31, 1988.

Section A - General Fund, and Special Funds Converted to Special Accounts on March 31, 1988. This level reports the financial affairs of the government's operations against the plans presented to the House in the Estimates.

Section B - Combined Financial Statements (General Fund combined with Special Funds). This level reports the financial affairs of the Consolidated Revenue Fund.

Section C - Consolidated Financial Statements (Section B consolidated with certain crown corporations). This level reports the financial affairs of the larger government entity by including those government bodies that are considered to be performing government functions.

In each set of financial statements presented, the reporting entity is clearly identified to the reader, and as the Auditor General notes - "nothing in these [his] comments is intended to imply that any set of these financial statements is incorrect."

Changes the Auditor General is concerned with which occurred in the March 31, 1988 financial statement presentation were because of legislation (Special Accounts Appropriation and Control Act - Bill 18-1988) which became effective March 31, 1988.

The government has an ongoing program of reviewing its presentation of financial position and operating results in order to ensure the government's financial statements are clear, concise, and as informative as possible.

A.1.2 TIMELY ISSUANCE OF THE PUBLIC ACCOUNTS

We encourage the Legislative Assembly to examine the present practice with respect to the issuance of the Public Accounts, and to consider the benefits of an earlier date of issuance to legislators and the public. (Page 20, Auditor General's 1989 Report)

The government agrees with the importance of timely release of the financial statements of government. The timing of the release of the financial statements is consistent with other legislated statements, the Estimates and the Interim Financial Statements.

A related matter is accountability. The government's accountability is firstly to the Legislative Assembly and release of the financial statements when the Legislative Assembly is not in session undermines that reporting relationship.

A.1.3 STATUTORY AUTHORIZATION OF EXPENDITURES

One of the statutory spending provisions is Section 20(3) of the Financial Administration Act. (Page 24, Auditor General's 1989 Report)

With respect to $10,394,411 of over expenditures in two...votes, we consider that the provisions of Section 20(3) were not applicable, and that the use of this authority for these over expenditures was inappropriate.

Greater care should be taken by Treasury Board and the ministries involved to ensure that only appropriate authorizations are used for the expenditure of government funds. (Page 25, Auditor General's 1989 Report)

As noted in our response to the 1988 report, each application to spend anticipated excess recoveries under Section 20(3) of the Financial Administration Act is individually reviewed by Treasury Board. The sponsoring ministry is required to present the case that the anticipated additional recovery, needed to authorize additional spending, will be realized. This continues to be the case.

In the two votes (Vote 22 and 26) cited by the Auditor General, the information would have satisfied the Section 20(3) criteria if the recovery were realized. The management task of estimating is not an exact science and factors supporting increased recoveries when a submission is made to Treasury Board may not be realized later in the year.

A large percentage (98%) of the over expenditure related to Vote 22, and the Estimates for fiscal 88/89 and 89/90 have been restructured to prevent a recurrence of this type of error in estimating recoveries for Non-Residential School Property Tax recoveries - they are now reported as revenue.

About 80% of the Vote 26 over expenditure was authorized for payment out of the Contingencies Vote, but, as noted, the necessary paperwork was not completed by fiscal year-end.

The use of Section 20(3) of the Financial Administration Act was appropriate, based on the information available at the time of the Treasury Board decision.

A.1.4 GOVERNMENT FINANCIAL STATEMENT STANDARDS

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants was established to provide guidelines on public sector accounting and auditing matters.

In November 1986, PSAAC issued Public Sector Accounting, Statement 3. The "General Standards of Financial Statement Presentation for Government" contains 35 recommendations for government financial statements in Canada. Financial statements for the Province of British Columbia continue to be among the best for senior levels of government in Canada by complying fully or at least partially with 33 of the 35 recommendations.

Commencing on page 26 of his report, the Auditor General comments on two recommendations which are not being following and eleven which he feels are only partially adhered to.

The Auditor General's comments are reproduced in italics on the next three pages, accompanied by the government's comments on the status of compliance.

PSAAC RECOMMENDATIONS NOT BEING FOLLOWED:	STATUS:
Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.	The government is awaiting further development of guidelines by PSAAC before proceeding with any review of this item.
The statement of revenues and expenditures should report changes in valuation allowances in the accounting period.	Compliance with this recommendation is under review.
PSAAC RECOMMENDATIONS BEING PARTIALLY FOLLOWED:	**STATUS:**
The financial statements of a government should be clearly identified and should include or be accompanied by an acknowledgement of the government's responsibility for their preparation.	In future a specific statement will be included acknowledging the government's responsibility for preparation of the financial statements.
Financial statements should present a comparison of current period amounts with those of the prior period(s).	Comparative figures will be presented beginning with the 1988/89 Public Accounts.
Financial statements should be issued on a timely basis.	Tabling in the Legislative Assembly has usually been nine to 12 months after the fiscal year-end. See comments on pages 19 - 20 of the Auditor General's Report and Section A.1.2 of this Response.

PSAAC RECOMMENDATIONS BEING PARTIALLY FOLLOWED:	STATUS:
The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classification, such as: accounts payable and accrued liabilities; employee pension obligations; borrowings; and loans and advances from other governments.	Employee pension obligations have not, to date, been included in the government's reported liabilities, nor has the basis for their calculation been presented. In November 1988, PSAAC issued Accounting Statement 5, entitled "Accounting for Employee Pension Obligations in Government Financial Statements." This statement recommends how to account for and report such obligations. Compliance with this recommendation is under review.
Financial statements should disclose adequate information about the nature and terms of a government's liabilities.	See preceding comment. We do not agree with disclosing excessive detail in summary level financial statements.
Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.	We have considered this recommendation and feel that this would be excessive detail, inappropriate for summary level financial statements.
Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.	We have considered this recommendation and feel that the existing treatment is appropriate. The assets are properly valued and the current accounting treatment results in the relevant expense being recognized as programs are delivered.
Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period.	Compliance with this recommendation is under review.

PSAAC RECOMMENDATIONS BEING PARTIALLY FOLLOWED:	STATUS:
Financial statements should disclose the gross amounts of expenditures.	Currently the government bases its reporting on the criteria established by the Estimates, which do not call for disclosure of all amounts on a gross basis. Review of this policy will continue and adjustments made when appropriate.
Financial statements should disclose the gross amounts of revenues.	See preceding comment.
The statement of changes in financial position should classify cash flows by operating, investing and financing activities.	Compliance with this recommendation is under review.